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SUBJECT: CAMEROON: IMF PLANS AND PERSPECTIVES

¶1. (SBU) Summary: The Cameroonian government has not yet decided what kind of follow-on it wants to the just completed three-year IMF Poverty Reduction program. At the moment, the IMF is limited to a data-gathering and policy advisory role, although this will be discussed during a scheduled March/April IMF Mission to Cameroon. IMF Res Rep Malangu Kabedi-Mbuyi is downbeat about the Cameroonian economy, especially the business climate, and believes the global economic crisis will have a much larger impact on Cameroon's budget and balance of payments than the Finance Minister realizes. The Fund's Final Review of its three-year program highlighted growing concerns about the global financial crisis, which it thought could result in lower growth and a bigger balance of payments deficit. End summary.
The Murky Future of the Fund Program

¶2. (U) In a recent meeting with Pol/Econ Chief, IMF Res Rep Malangu Kabedi-Mbuyi explained that the IMF's 2006-2009 Arrangement under the Poverty Reduction and Growth Facility (PRGF) program legally ended in January, 2009. The Government of Cameroon (GRC) has not clearly indicated what follow-on program, if any, it wants with the IMF. According to Kabedi, the GRC has three options: 1) request another PRGF; 2) request a Policy Support Instrument (PSI), which would provide a stamp of approval for the international financial community but would not include IMF financing and would not permit nonconcessional borrowing; or 3) make no request for a follow-on financial program, which would put the IMF in a surveillance role. The Fund would collect data provide policy advice, while placing no conditionalities on borrowing.

¶3. (SBU) Minister of Finance Essimi Menye publicly sought to reassure the international community that the IMF "gendarme" will stay, while at the same time talking about the need to borrow at market rates. In the run-up to an Article IV Consultation Mission coming to Cameroon March 26-April 9, Menye has told the Fund he is not ready to discuss a future program yet but may ask for a Mission to return for later discussions, which Kabedi thought might have to wait until August/September. Kabedi thought the GRC's hesitancy about renewing an IMF program in part reflected a philosophical discomfort with the Fund. (Many Cameroonians blame the IMF for constraining the kind of infrastructure and public sector growth they believe is needed to boost growth.) It also stems from a desire to have more freedom to spend in politically-motivated ways prior to the 2011 election, she surmised, pointing to the GRC's interest in social housing schemes and stadium construction.

The Global Economic Crisis and Cameroon

¶4. (SBU) Kabedi thought the global economic crisis "has changed the landscape completely" for Cameroon and will ultimately limit Essimi Menye's options. She was concerned

that he doesn't seem to understand the relevance of the global situation to Cameroon, noting that the GRC will find it very difficult to borrow in an international capital market which "has gone totally dry". The fall in world oil prices has already hurt Cameroon's budget forecast, with Cameroonian oil export prices down by about half. This is compounded by an anticipated drop in non-oil exports, especially timber and cotton, which could seriously undermine Cameroon's revenues and balance of payments, she said. Kabedi added that some banking sources are reporting a slowdown in remittances. While lower domestic demand and an anticipated slower development of mining projects may reduce import bills, this will only marginally compensate in the balance of payments. The bright light for Cameroon is its healthy foreign exchange reserves, built up by high oil prices, she said (IMF data put projected 2008 reserves at almost \$4 billion, nearly 7 months of cover). She thought the GRC would likely draw this down to weather the current storm.

Economic Woes

15. (SBU) Kabedi was characteristically downbeat about Cameroon's economy. She noted that, for the third year in a row, Cameroon dropped in the World Bank's Doing Business Index (down from 158 to 164 out of 181 countries), reflecting persistent problems with corruption, the judicial system, poor infrastructure and high transaction costs. She felt that poverty had worsened and the government had failed to spend substantial amounts of debt relief funds. In the context of continuing these economic problems and the global

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economic environment, she thought it would be best for Cameroon to sign on for a new PGRF, which would strengthen structural reforms and give Cameroon more options in an emergency. With a program in place, for example, Cameroon would be able to access a newly introduced exogenous shock facility with low conditionalities and fast disbursement, Kabedi affirmed.

The Final Review

16. (U) The IMF's Sixth and Final Review of the PRGF, published in February, 2009, noted that the economic outlook for Cameroon is "subject to significant downside risks". It predicted 3.9 percent real GDP growth in 2008, adjusted slightly down from previous predictions because of lower oil prices and the global economic crisis. The review noted slightly lower annual inflation (4.9 percent), and continued (but slower) improvements in public finance management and public enterprise reform. The global slowdown and decline in commodity prices could result in a widening of the current account deficit to about 4 percent of GDP, while dampening nonoil real GDP growth by about 0.3 percent and decelerating inflation, according to the Review. The Review pointed to successes of the PRGF in improving fiscal performance and keeping inflation low, while overall growth and public enterprise reform remained slow. Faced with a further erosion of oil revenues, the government, in line with the IMF's recommendation, would reduce nonpriority spending, mobilize nonoil revenues, and potentially draw on government deposits in the central bank, according to the Review.

Comment

17. (SBU) In major national speeches over the past several months, the Speaker of Parliament and President Paul Biya have alluded to the global financial situation in explaining why Cameroonians should expect lower budget spending. Nonetheless, we agree with Kabedi that most Cameroonians have not absorbed the potential impact of the global economic crisis. Kabedi agreed with us that there is a fundamental

lack of vision and leadership on the economic side of the house in Cameroon, as seen in the lack of economic planning and policy direction at senior levels of government. The decision to let the IMF program lapse into a cloud of uncertainty in a year of tightening belts and global crisis is one more sign of poor economic leadership. Luckily for Cameroon, its healthy reserves, positive growth, good debt position, relatively diversified economy and economic size (Cameroon's GDP is almost 50 percent of the size of GDP for the entire CEMAC Central African region) will buy it some time.

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